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WENDELL PRIMUS
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GREENSPAN SEES DANGER IN BUSH DEFICITS

Dear Colleague:

I want to call your attention to a recent article in *The Washington Post*, entitled "Greenspan Sees Danger in Deficits" (by John Berry, July 17, 2003, p. E-1).

Fed Chairman Alan Greenspan this week testified that the ballooning Bush deficits pose a danger to achieving growth and lowering unemployment. In his testimony before the Senate Banking Committee this week, Chairman Greenspan said, "If we do not come to grips with these deficit issues, it will make it more difficult for us to maintain the type of growth rates which . . . will bring total employment up and bring the unemployment rate down."

The prospects are not good for getting the kind of growth we need to create jobs. To make a significant dent in unemployment, the economy has to grow at well over 3 percent for some time. The Federal Reserve, which sees a pick-up in economic activity in the second half of the year, is still predicting an unemployment rate in the fourth quarter of this year of 6 to 6¼ percent. Even if their forecast for next year pans out, the Fed is predicting that the unemployment rate will still be in the 5 ½ to 6 percent range by the end of 2004.

As the article points out, Chairman Greenspan's testimony before Congress contrasted sharply with those of senior Bush Administration officials, who have offered no policy changes to reverse our deteriorating fiscal situation. The Bush Administration's own Mid-Session Review released this week shows that this year's (FY2003) budget deficit is \$455 billion, 50 percent higher than the Administration forecast just five months ago. The Administration forecasts a \$475 billion deficit for FY2004, not including the continuing cost of the occupation of Iraq.

Chairman Greenspan has been concerned about the effect of deficits on interest rates, investment, and long-term growth. He is uncomfortable with the large budget deficits resulting from the Bush tax cuts. Under questioning from Congress, Chairman Greenspan said that he would be against running large deficits at full employment.

Please take the time to read this article. If you have questions about the issues raised in this article, please talk to me or have your staff contact JEC economist Matthew Salomon at Matthew_Salomon@jec1.senate.gov or 202-224-0372.

Sincerely,

Pete Stark
Ranking Member